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STONE FRUIT ANNUAL

Systems Approach Approved for U.S. Cherries

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Report Highlights:

Japanese cherry production is expected to decline marginally in 2009 due to the lack of sunshine and cold temperatures. While, Japanese imports of U.S. cherries are expected to increase approximately 8 percent from the previous season. In July 2009, the first shipment of U.S. cherries under the systems approach protocol that would not require methyl bromide fumigation arrived from the Pacific Northwest region.

Commodities:

Fresh Cherries,(Sweet&Sour)

Fresh Peaches & Nectarines

Production:

Cherries

Japanese sweet cherry production is expected to decrease marginally in 2009, according to industry sources. Although the region has experienced cold temperatures during the blossoming season and bee populations have been on the decline, pollination in cherry trees and fruit settings have been good; however, much of the fruit is undersized due to the lack of sunshine in June. The peak harvesting time runs from mid to late June. Harvesting for Japan's most popular variety, "Satonishiki", which are similar to "Rainer" cherries in the United States began in mid June. This season cherry harvesting started a few days earlier than normal, according to industry sources.

Yamagata prefecture, approximately 200 miles north of Tokyo, is the key region for Japan's sweet cherry production. Yamagata produced approximately 71 percent of the nation's total in 2008.

Post forecasts the nation's total output of cherries in 2009 will be approximately 16,700 metric tons down slightly from the level of the previous season. However, the area harvested will be approximately 4,490 hectares, similar levels harvested in the previous season. Japanese production of tart cherries is expected to be relatively small.

Peaches

High temperatures throughout the growing region are expected to result in marginal increases in 2009. As of early July most of the fruit was small due to the lack of rain in early summer, but growers expect that fruit size will improve as the season progresses. The peak harvesting season for Japan's peach production is during July and August. Yamanashi prefecture, approximately 100 miles west of Tokyo, and Fukushima prefecture, approximately 100 miles north of Tokyo, is the two major peach production regions in Japan. The majority of peaches produced in Japan are of the white peach variety.

Post estimates the nation's total output of peaches in 2009 will be approximately 165,000 metric tons up marginally from the previous season. The area devoted to peach harvests is approximately 10,000 hectares, with no major changes from the previous season.

Consumption:

Per household consumption of fresh fruits in Japan was approximately 89.7 kilograms in 2008, according to the Ministry of Internal Affairs and Communication (MIC.) Fruit consumption has declined approximately 12.9 percent over 10 years from the 1998 level of 102.6 kilograms. These statistics are based on two-or-more-person households. The average household expenditure for fresh fruits was \$384.80 (36,117 yen) in 2008, declining approximately 17.5 percent from expenditures of \$466.20 (43,758 yen) in 1998. The majority of fresh fruit consumption consists of mikan tangerines, and fresh apples in that order. Japanese per-household consumption of fresh peaches was approximately 2.3 kilograms in 2008, with household expenditures of \$15.11 (1,418 yen).

* The 93.86 yen per dollar exchange rate is based on a Nikkei News quote from July 21, 2009.

Total commercial shipments of domestic cherries was 15,000 metric tons in 2008; with over 80 percent fresh consumption and the rest destined for processing, canning being one example. Imported fresh cherries were mostly consumed fresh. While 144,100 metric tons of fresh peaches were shipped commercially in 2008, the majority was consumed fresh at over 85 percent and the rest destined for processing. There were no imports of fresh peaches.

Non-profit organizations (NPOs) are active in promoting consumption of fresh vegetables and fruits in Japan. Two major NPOs in particular are very active. The Five-a-Day organization promotes fruit and vegetable consumption through dietary education with the slogan, "Let's eat five servings of vegetables (350 grams) and two servings of fruit (200 grams) every day." Over 130 companies are members this organization including supermarkets, trading companies, food processing companies, growers, et al. Activities at the Vegefru-seven are very similar with those of the Five-a-Day program and promote fruit and vegetable consumption through dietary education and encouragement of a healthy life style.

Trade: Cherries

Japanese imports of U.S. fresh cherries are expected to reach 9,200 metric tons in 2009, up approximately 8 percent from the level of the previous season. The U.S. is by far the largest supplier of fresh cherries to the Japanese market, with U.S. cherries comprising over 99 percent of Japanese cherry imports.

This season's (2009) first shipment arrived in Japan on April 23 with 1,364 cartons (11 metric tons) from the State of California. According to the Japan Fresh Produce Import and Safety Association, Japanese imports of fresh cherries from California completed on June 24 with the total volume of 836,609 cartons (6,776 metric tons), up marginally from the level of the previous season. While, the shipment from the Pacific Northwest region (Washington and Oregon) started on June 14 and it will continue until August. Japanese traders expect the total shipment from the Pacific Northwest in this season to be approximately 300,000 cartons (2,430 metric tons).

On July 8, 2009 the first shipment of U.S. cherries under the systems approach protocol arrived from the Pacific Northwest region. According to Tokyo traders, the quality of fruit is extremely good, compared to the fruit treated by methyl bromide fumigation. Currently, the shipment under the systems approach protocol is relatively small, but traders expect the volume will increase as the season progress.

Japan also imports fresh cherries from the Southern Hemisphere countries such as Chile, New Zealand and Australia (Tasmania) in the winter season. Import volumes from these countries are small.

There are no exports of Japanese fresh cherries.

Nectarines and Peaches

U.S. nectarines were marketed in Japan from 2000 through 2005 with sales volumes between 9 – 51 metric tons annually; however, there have been no shipment to Japan since that time. All U.S. nectarines are subject to methyl bromide fumigation before entering Japan due to codling moth concerns and it is not economical to ship only small volumes with fumigation requirement, according to Japanese traders. It is expected there will be no shipments of U.S. nectarines to Japan in 2009.

The importation of fresh peaches is banned from the United States due to phytosanitary concerns.

Prices

When the season's first crop arrived in Japan on April 23, U.S. cherries were trading at premium prices at the Tokyo Wholesale Market at around \$26.64 (2,500 yen) per kilogram. The market kept this premium price for a few days.

In May, early-crop cultivars such as Broox, Tulare and Garnet cherries from California were trading at \$117.20 (11,000 yen) for an 18-pound (8.1 kilogram) carton of size 10.5 Row (25.4 millimeter in diameter) and \$111.87 (10,500 yen) for size 11.0 Row (24.2 millimeter in diameter) at the Tokyo Ohta Wholesale Market. In early June, California Bing cherries were trading at \$95.89 (9,000 yen) for a carton of size 10.5 Row and \$90.56 (8,500 yen) for size 11.0 Row.

In late June, Pacific Northwest (Washington and Oregon) cherries were entering the prime sales season and were trading at relatively lower prices than the previous season. Bing cherries were trading at \$74.58 (7,000 yen) for an 18-pound carton of size 10.5 Row and \$69.25 (6,500 yen) for size 11.0 Row. In mid July, Pacific Northwest Rainer cherries were trading at a premium price of \$79.91 (7,500 yen) for an 11 pound (5.0 kilogram) carton.

In late June, a Tokyo supermarket sold U.S cherries at \$1.68 (158 yen) for a 100-gram plastic clamshell pack, \$3.17 (298 yen) for a 200-gram pack and \$5.31 (498 yen) for a 335-gram pack. While, domestic cherries (a product of Yamagata prefecture) were sold at \$4.24 (398 yen) for a 200-gram pack at the same supermarket. All domestic cherries were fairly small size fruit, likely size 12 Row (21.4 millimeter in diameter) or smaller.

Policy:

U.S. fresh cherries have been exported to Japan for more than a quarter century. Due to codling moth findings in the United States, all U.S. cherries are subject to methyl bromide fumigation before entering into Japan. This process significantly damages the quality of fruit and shortens the product's shelf life. U.S. industry, USDA/APHIS, and the government of Japan, for more than a decade, have discussed a cherry systems approach protocol that would not require methyl bromide fumigation for U.S. fresh cherries.

Finally, on June 5, 2009, the Ministry of Agriculture, Forestry and Fisheries (MAFF) announced that U.S. cherries from California and the Northwest regions of Washington and Oregon would

be allowed to ship to Japan under a systems approach protocol, given that the following conditions are met.

1. Cherries should be harvested in an orchard where low codling moth occurrences are confirmed by a field trap survey.
2. Cherries should be inspected three times after the harvest (the inspections take place when cherries arrive at the packing house, after grading the fruit, and prior to shipping to Japan), and
3. Designated production fields and facilities should be audited periodically by Japanese government inspectors.

In early July 2009, Japanese traders received the first shipment of U.S. cherries under the systems approach protocol.

Currently, New Zealand and Australia (Tasmania) are able to ship their cherries to Japan under the systems approach protocol. New Zealand was granted the protocol in December 2005 and Australia (Tasmania) in November 2008. The shipping volume from New Zealand and Australia is relatively small compared to that of the United States. Southern Hemisphere countries sell their products in winter, while the U.S. sells in early summer so that they are not a direct competitor to the United States.

Marketing:

American cherry sales promotions start with the arrival of the new crop U.S. cherries in late April. It usually coincides with the week-long national holiday season in Japan – “Golden Week”. Japanese strawberry production ends in March and it is rather a slack period for domestic fruit in April and May until the production of domestic melons and cherries comes into full force in June. Therefore it is ideal to set up sales promotions of American cherries during the “Golden Week” holiday season.

During “Golden Week”, Japanese supermarkets often hold American food fairs and U.S. cherries are often displayed at the main entrance of the store. The peak sales season for California cherries in Japan runs from May through early June and therefore U.S. cherries do not compete directly with domestic cherry sales; however, when the sales of Pacific Northwest cherries start in mid June it usually coincides with the peak sales of domestic cherries.

U.S. cherries are commonly represented by dark red colored Bing type cherries; while Japanese cherries are represented by light pink colored type cherries. By appearance, U.S. and Japanese cherries are often regarded as being a different type by Japanese consumers; therefore, U.S. cherries are commonly sold as “American” cherries; while Japanese cherries are sold as “sakuranbo” cherries.

2009 Import Duties

Import duties are not subject to further reductions outside of the next round of WTO negotiations. The applicable import duties on fresh cherry and nectarine are as follows:

| Tariff Code (HS) | Description | Duty Rate |
|------------------|-----------------|-----------|
| 0809.20-000 | Fresh Cherry | 8.5 % |
| 0809.30-000 | Fresh Nectarine | 6.0 % |

All duties are charged on a CIF basis.

Production, Supply and Demand Data Statistics:

Fresh Cherries PS&D

| Fresh Cherries,(Sweet&Sour) Japan | 2007 | | | 2008 | | | 2009 | | |
|---|-----------------------------|--------|----------|-----------------------------|--------|----------|--------------------------------|-----|--------|
| | 2007/2008 | | | 2008/2009 | | | 2009/2010 | | |
| | Market Year Begin: Jan 2008 | | | Market Year Begin: Jan 2009 | | | Market Year Begin: Jan 2010 | | |
| | USDA Official Data | | Old Post | USDA Official Data | | Old Post | USDA Official Data | Jan | |
| | | | Data | | | Data | | | Data |
| Area Planted | 5,010 | 5,010 | 4,950 | 5,060 | 5,060 | 4,950 | | | 4,950 |
| Area Harvested | 4,540 | 4,540 | 4,490 | 4,590 | 4,590 | 4,490 | | | 4,490 |
| Bearing Trees | 0 | 0 | | 0 | 0 | | | | |
| Non-Bearing Trees | 0 | 0 | | 0 | 0 | | | | |
| Total Trees | 0 | 0 | 0 | 0 | 0 | 0 | | | 0 |
| Commercial Production | 17,300 | 17,300 | 15,000 | 17,600 | 17,600 | 14,700 | | | 16,000 |
| Non-Comm. Production | 2,100 | 2,100 | 2,000 | 2,100 | 2,100 | 2,000 | | | 2,000 |
| Production | 19,400 | 19,400 | 17,000 | 19,700 | 19,700 | 16,700 | | | 18,000 |
| Imports | 10,000 | 10,000 | 8,525 | 10,000 | 10,000 | 9,300 | | | 10,000 |
| Total Supply | 29,400 | 29,400 | 25,525 | 29,700 | 29,700 | 26,000 | | | 28,000 |
| Fresh Dom. Consumption | 26,530 | 26,530 | 23,025 | 26,780 | 26,780 | 23,600 | | | 25,500 |
| Exports | 0 | 0 | 0 | 0 | 0 | 0 | | | 0 |
| For Processing | 2,870 | 2,870 | 2,500 | 2,920 | 2,920 | 2,400 | | | 2,500 |
| Withdrawal From Market | 0 | 0 | 0 | 0 | 0 | 0 | | | 0 |
| Total Distribution | 29,400 | 29,400 | 25,525 | 29,700 | 29,700 | 26,000 | | | 28,000 |

Fresh Peaches & Nectarines PS&D

| Fresh Peaches & Nectarines Japan | 2007 | | | 2008 | | | 2009 | | |
|-------------------------------------|-----------------------------|---------|----------|-----------------------------|---------|----------|-----------------------------|--|---------|
| | 2007/2008 | | | 2008/2009 | | | 2009/2010 | | |
| | Market Year Begin: Jan 2008 | | | Market Year Begin: Jan 2009 | | | Market Year Begin: Jan 2010 | | |
| | USDA Official Data | | Old Post | USDA Official Data | | Old Post | USDA Official Data | | Jan |
| | | | Data | | | Data | | | Data |
| Area Planted | 11,200 | 11,200 | 11,100 | 11,100 | 11,100 | 11,000 | | | 11,000 |
| Area Harvested | 10,200 | 10,200 | 10,100 | 10,100 | 10,100 | 10,000 | | | 10,000 |
| Bearing Trees | 0 | 0 | | 0 | 0 | | | | |
| Non-Bearing Trees | 0 | 0 | | 0 | 0 | | | | |
| Total Trees | 0 | 0 | 0 | 0 | 0 | 0 | | | 0 |
| Commercial Production | 141,300 | 141,300 | 144,100 | 139,900 | 139,900 | 151,000 | | | 146,500 |
| Non-Comm. Production | 12,700 | 12,700 | 13,200 | 12,600 | 12,600 | 14,000 | | | 13,500 |
| Production | 154,000 | 154,000 | 157,300 | 152,500 | 152,500 | 165,000 | | | 160,000 |
| Imports | 0 | 0 | 0 | 0 | 0 | 0 | | | 0 |
| Total Supply | 154,000 | 154,000 | 157,300 | 152,500 | 152,500 | 165,000 | | | 160,000 |
| Fresh Dom. Consumption | 135,300 | 135,300 | 138,138 | 133,950 | 133,950 | 145,400 | | | 140,400 |
| Exports | 500 | 500 | 562 | 550 | 550 | 600 | | | 600 |
| For Processing | 18,200 | 18,200 | 18,600 | 18,000 | 18,000 | 19,000 | | | 19,000 |
| Withdrawal From Market | 0 | 0 | 0 | 0 | 0 | 0 | | | 0 |
| Total Distribution | 154,000 | 154,000 | 157,300 | 152,500 | 152,500 | 165,000 | | | 160,000 |

Import Trade Matrix (Quantity) – Fresh Cherries

| Import Trade Matrix (Quantity) | | | | | |
|--------------------------------|--------------------|-------------------|-------|-------------------|-------|
| Country | Japan | | | | |
| Commodity | Cherry, Fresh | | | | |
| Time Period: | January - December | | | | |
| Units: | Metric Tons | | | | |
| Import for: | 2006 | Import for: | 2007 | Import for: | 2008 |
| U.S. | 6,846 | U.S. | 9,295 | U.S. | 8,454 |
| Others | | Others | | Others | |
| Chile | 76 | Chile | 44 | Chile | 33 |
| New Zealand | 14 | New Zealand | 22 | New Zealand | 20 |
| Australia | 11 | Australia | 13 | Australia | 17 |
| | | | | | |
| | | | | | |
| Total for Others | 101 | Total for Others | 79 | Total for Others | 70 |
| Others not Listed | 0 | Others not Listed | 0 | Others not Listed | 0 |
| Grand Total | 6,947 | Grand Total | 9,374 | Grand Total | 8,524 |
| Source: World Trade Atlas | | | | | |

Import Trade Matrix (Value, CIF) – Fresh Cherries

| Import Trade Matrix (Value, CIF) | | | | | |
|----------------------------------|------------------------|-------------------|--------|-------------------|--------|
| Country | Japan | | | | |
| Commodity | Cherry, Fresh | | | | |
| Time Period: | January - December | | | | |
| Units: | Millions of US Dollars | | | | |
| Import for: | 2006 | Import for: | 2007 | Import for: | 2008 |
| U.S. | 61.468 | U.S. | 65.245 | U.S. | 69.530 |
| Others | | Others | | Others | |
| Chile | 0.703 | Chile | 0.442 | Chile | 0.384 |
| New Zealand | 0.165 | New Zealand | 0.261 | New Zealand | 0.285 |
| Australia | 0.204 | Australia | 0.253 | Australia | 0.257 |
| | | | | | |
| | | | | | |
| Total for Others | 1.072 | Total for Others | 0.956 | Total for Others | 0.926 |
| Others not Listed | 0.000 | Others not Listed | 0.000 | Others not Listed | 0.000 |
| Grand Total | 62.540 | Grand Total | 66.201 | Grand Total | 70.456 |
| Source: World Trade Atlas | | | | | |

Wholesale Price Table – Domestic Cherries

| Wholesale Price Table | | | |
|-----------------------|------------------------|------|----------|
| Country | Japan | | |
| Commodity | Domestic Cherry, Fresh | | |
| Prices in: | Japanese Yen | | |
| Per uom: | KG | | |
| Year: | 2008 | 2009 | % Change |
| Jan | | | |
| Feb | | | |
| Mar | | | |
| Apr | 7632 | 6644 | -13% |
| May | 4088 | 4190 | 2% |
| Jun | 1814 | | -100% |
| Jul | 1526 | | -100% |
| Aug | 1717 | | -100% |
| Sep | | | |
| Oct | | | |
| Nov | | | |
| Dec | | | |
| | | | |

| | | | |
|----------------|-----------|------------------------|--|
| Exchange Rate: | 92.54 | (Local Currency/US \$) | |
| Date of Quote: | 7/13/2009 | (MM/DD/YYYY) | |
| Source: MAFF | | | |

Wholesale Price Table – Imported Cherries

| Wholesale Price Table | | | |
|-----------------------|------------------------|------------------------|----------|
| Country | Japan | | |
| Commodity | Imported Cherry, Fresh | | |
| Prices in: | Japanese Yen | | |
| Per uom: | KG | | |
| Year: | 2008 | 2009 | % Change |
| Jan | | | |
| Feb | | | |
| Mar | | | |
| Apr | 2401 | 1973 | -18% |
| May | 1177 | 1185 | 1% |
| Jun | 1016 | | -100% |
| Jul | 1105 | | -100% |
| Aug | 1258 | | -100% |
| Sep | | | |
| Oct | | | |
| Nov | | | |
| Dec | | | |
| Exchange Rate: | 92.54 | (Local Currency/US \$) | |
| Date of Quote: | 7/13/2009 | (MM/DD/YYYY) | |
| Source: MAFF | | | |

Export Trade Matrix (Quantity) – Fresh Peaches & Nectarines

| Export Trade Matrix (Quantity) | | | | | |
|--------------------------------|--------------------|-------------|------|-------------|------|
| Country | Japan | | | | |
| Commodity | Peaches, Fresh | | | | |
| Time Period: | January - December | | | | |
| Units: | Metric Tons | | | | |
| Export for: | 2006 | Export for: | 2007 | Export for: | 2008 |
| U.S. | 0 | U.S. | 0 | U.S. | 0 |
| Others | | Others | | Others | |
| Taiwan | 367 | Taiwan | 394 | Taiwan | 421 |
| Hng Kong | 56 | Hong Kong | 90 | Hong Kong | 135 |
| Singapore | 2 | Singapore | 2 | Shingapore | 1 |
| | | | | | |
| | | | | | |

| | | | | | |
|---------------------------|-----|-------------------|-----|-------------------|-----|
| Total for Others | 425 | Total for Others | 486 | Total for Others | 557 |
| Others not Listed | 0 | Others not Listed | 1 | Others not Listed | 4 |
| Grand Total | 425 | Grand Total | 487 | Grand Total | 561 |
| Source: World Trade Atlas | | | | | |

Export Trade Matrix (Value, FOB) – Fresh Peaches & Nectarines

| Export Trade Matrix (Value, FOB) | | | | | |
|----------------------------------|------------------------|-------------------|-------|-------------------|-------|
| Country | Japan | | | | |
| Commodity | Peaches, Fresh | | | | |
| Time Period: | January - December | | | | |
| Units: | Millions of US Dollars | | | | |
| Export for: | 2006 | Export for: | 2007 | Export for: | 2008 |
| U.S. | 0.000 | U.S. | 0.000 | U.S. | 0.000 |
| Others | | Others | | Others | |
| Taiwan | 2.690 | Taiwan | 3.135 | Taiwan | 3.497 |
| Hong Kong | 0.427 | Hong Kong | 0.672 | Hong Kong | 1.018 |
| Singapore | 0.014 | Singapore | 0.025 | Singapore | 0.020 |
| | | | | | |
| | | | | | |
| Total for Others | 3.131 | Total for Others | 3.832 | Total for Others | 4.535 |
| Others not Listed | 0.017 | Others not Listed | 0.060 | Others not Listed | 0.088 |
| Grand Total | 3.148 | Grand Total | 3.892 | Grand Total | 4.623 |
| Source: World Trade Atlas | | | | | |

Wholesale Price Table - Peaches

| Wholesale Price Table | | | |
|-----------------------|----------------|------|----------|
| Country | Japan | | |
| Commodity | Peaches, Fresh | | |
| Prices in: | Japanese Yen | | |
| Per uom: | KG | | |
| Year: | 2008 | 2009 | % Change |
| Jan | | | |
| Feb | | | |
| Mar | | | |
| Apr | 2673 | 2219 | -17% |
| May | 1562 | 1416 | -9% |
| Jun | 584 | | -100% |
| Jul | 420 | | -100% |
| Aug | 385 | | -100% |
| Sep | 353 | | -100% |

| | | | |
|----------------|-----------|------------------------|-------|
| Oct | 403 | | -100% |
| Nov | | | |
| Dec | | | |
| | | | |
| Exchange Rate: | 92.54 | (Local Currency/US \$) | |
| Date of Quote: | 7/13/2009 | (MM/DD/YYYY) | |
| Source: MAFF | | | |